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R. J. Reynolds Tobacco Company

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RICHARD J. REYNOLDS
(ABSENT IN ARMED FORCES)
FRED S. HILL
TREASURER

January 18, 1944.

To the Stockholders of
R. J. REYNOLDS TOBACCO COMPANY:

The Financial Statement of your Company as at December 31, 1943, is submitted herewith.

Net earnings for the year 1943 amounted to $18,562,741.15, or $1.85 per share, compared with $19,860,231.14, or $1.98 per share for 1942, after provision for depreciation, taxes and all other charges. Federal and State taxes on income, including excess profits tax of $2,780,562.69, were $18,031,505.75. Dividends amounting to $1.50 per share were paid in 1943.

The five-year revolving or stand-by credit for $75,000,000.00, arranged in 1942, has proved quite satisfactory in providing short-term funds for actual seasonal needs. The $18,750,000.00 of notes issued under this credit and held by twelve of the Company's depositary banks at the end of 1942, plus additional borrowings thereunder early in 1943 to complete purchases from the 1942 crop of leaf tobacco acquired after the close of that year, were reduced to $7,500,000.00 before any borrowings were made for purchases from the 1943 crops. It is expected to make in 1944 at least a comparable retirement of the $37,500,000.00 of 1½% notes outstanding at the end of 1943 and issued under the stand-by credit in connection with purchases from 1943 crops. As against these notes and other current liabilities the Company had at December 31, 1943, current assets of $209,054,970.40, with a net current asset position of $146,819,349.51, which latter amount is $3,105,539.47 greater than at the close of the preceding year.

The Company's volume of sales in 1943 was by far the largest in its history. The principal products of the Company—CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco and other well-known brands—were billed in 1943 at or below OPA ceiling prices, which remained without change during the year and which ceiling prices (except for increases in Federal excise stamp taxes) were not higher than prices prevailing continuously since 1937. As compared to these ceiling prices on its manufactured products, the Company's principal raw material—leaf tobacco—was purchased in 1943 at costs much above those of any crop year since 1919. In accordance with long established accounting practice in this Company and in the tobacco industry generally, the purchases of these higher priced tobaccos were averaged in with tobaccos previously on hand, and cost of each grade thereof for inventory and accounting purposes is represented by the average cost of all tobaccos of that grade on hand from all crops reflected in the inventory.

Discussions relating to renegotiation of sales to the United States Government in the year 1942 have been under way for some weeks but as yet no determination has been made. Although the Company maintains that no excessive prices were charged for its products, renegotiation officials have suggested an adjustment which, if Government position be sustained, would result, after crediting applicable Federal taxes on income, in a repayment of less than 1% of the total net earnings for the year 1942. Based on available information no repayment on sales for 1943 subject to renegotiation is indicated.

Limitations on production of leaf tobacco by farmers, as imposed in recent years by the Federal Government, have prevented the supply of leaf tobacco available for manufacture in this country from keeping abreast of the added need resulting from a continuing expansion of the demand for cigarettes. Moreover, Government restrictions on the purchase of leaf tobacco and respective grades thereof by individual manufacturers have further complicated the problem of acquiring leaf tobacco stocks sufficient to enable the Company to take full advantage of the continuously expanding demand for CAMEL Cigarettes and its other products. Specifically, from the 1943 crops of flue-cured and burley tobaccos the Company was not permitted by Government to buy for its inventories as many pounds as were used from those inventories during the year.

These restrictions have resulted in some shortening of the period of duration of inventory as tested by recent rates of production. Since CAMEL Cigarettes and other Company products can be made in their characteristic high quality only from tobaccos that have been held in storage long enough for proper aging, it has been necessary to be on guard against the possibility of depleting inventories below the point at which integrity of brands or production of them in satisfactory volume can be maintained. Following some restriction of output during the latter part of 1943, it may continue to be wise policy (unless Government controls of leaf tobacco growing are further relaxed or suspended for 1944 in line with the heretofore announced release of all other crops) to restrict within the demand therefor and for a further period the output of CAMEL Cigarettes and some other brands with the result that, after supplying the extremely heavy requirements of the Armed Forces, the civilian supply of these brands may be at times not wholly sufficient.

Jas. A. Gray,
President.

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